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SUBJECT: WILL COLOMBIA-ECUADOR TRADE DRY UP?: A VIEW FROM  
THE BORDER

REF: QUITO 60

11. (SBU) SUMMARY. Ecuador's balance of payments safeguard measures have left Colombian policymakers and business community leaders frustrated and concerned over the future of the commercial relationship with their third largest export market. The economic outlook in the border department of Narino is bleak, as businesses brace for decreased trade and higher unemployment in an area already ravaged by the financial pyramid crisis of late 2008. While the safeguards are not directed at any one specific country, they come on the heels of increasingly onerous requirements that Ecuador placed on Colombians wishing to travel to their southern neighbor. This has led many Colombians in the border area to view themselves as the victims of a deteriorating Colombian-Ecuadorian relationship, an unwelcome development as Colombia's other principal markets remain squeezed by the global financial crisis. END SUMMARY.

2008 TRADE IMMUNE FROM DIPLOMATIC SPAT  
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12. (SBU) Ecuador is Colombia's third largest export market (following the U.S. and Venezuela). Virtually all of Colombia's exports to Ecuador are non-traditional, industrial goods with higher value-added than the commodities that make up the bulk of Colombia's exports to the world. Principal export products include automobiles, medicines, cleaning products, household appliances, cosmetics, books and food products. Despite the break in diplomatic relations in March 2008, following Colombia's bombing of FARC Commander Raul Reyes's camp on Ecuador's side of the border, Colombian exports to Ecuador increased by 17 percent in the first nine months of 2008. Ecuadorian exports to Colombia showed a similar increase. Laura Martinez, Commercial Director of the Colombian-Ecuadorian Chamber of Commerce in Bogota confirmed that the GOE had not diminished its trade-related services in Colombia as a result of the suspension of formal diplomatic relations.

NEW MEASURES WILL HURT COLOMBIAN EXPORTS  
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13. (SBU) The balance of payments safeguards that Ecuador formally announced on January 22 (reftel) apply to 627 tariff

classifications, including 380 products that Colombia exports to Ecuador. Colombia's Ministry of Trade and Industry estimates exports to Ecuador will fall by USD 210 million (15 percent) in the face of new quotas and tariffs on a range of goods, including apparel, shoes, appliances, vehicles, cosmetics, ceramics and cleaning products. The Ministry's Director of Economic Integration Alfredo Ramos pointed out the double hit that Colombia and other Andean Community (CAN) nations will absorb, as they are forced to pay Most Favored Nation (MFN) level tariffs, as well as the new tariffs on goods that previously entered Ecuador duty-free. Ramos noted that while Colombia's lack of diplomatic relations prevented it from discussing the issue with Ecuador directly, Peru unsuccessfully lobbied Ecuador to exclude CAN countries from the safeguards. (NOTE: The CAN Secretariat has 30 days from Ecuador's notification to receive comments from member-countries and rule on the legality of the safeguard measures. Colombia hopes that, despite Ecuador's significant trade deficit with Colombia, Ecuador's overall trade surplus with CAN countries will justify at least an easing of the measures on CAN partners. END NOTE.)

#### RESENTMENT ON THE BORDER OVER "PERSONAL PROBLEM"

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¶4. (SBU) Econoff traveled to the towns of Pasto and Ipiales in the border department of Narino to examine the practical impact of the measures and gauge the mood in the wake of the political and economic turbulence. Local political and business leaders stressed the negative impact the safeguard measures would have on the local economy, particularly on

transport/logistics companies, customs brokers, "braceros" (who physically carry merchandise across the border) and others who support the bilateral flow of commerce. Roughly 80 percent of Colombia's exports to Ecuador travel by land, the lion's share of which enters Ecuador via the Rumichaca bridge at Ipiales. National Tax and Customs Directorate (DIAN) Ipiales Regional Director Laureano Gomez said he expected export numbers for January to decline significantly and that smuggling in both directions across the porous border would increase. (NOTE: Narino is already suffering the effects of the financial pyramid crisis of late 2008. Unofficial estimates put the number of Narinenses who had money invested in pyramid schemes at over 90 percent. Narino's unemployment rate of over 15 percent is five points higher than the national average and is sure to increase with the slowdown in trade with Ecuador. END NOTE)

¶5. (U) In December, Ecuador reinstated a requirement that Colombians entering Ecuador present proof they have no criminal history. In January, Ecuador imposed a further requirement that this document have an apostille from the MFA. Add to these measures stricter enforcement of yellow fever vaccination verification, and what Ipialenses describe as "harassment" of cars with Colombian license plates driving into the interior of Ecuador, and the result is a 30-50 percent decrease in Colombians crossing the border, according to press reports.

¶6. (SBU) Many blame worsening Colombian-Ecuadorian relations on personal enmity between Presidents Uribe and Correa, though local political and security officials have told us that their technical-level counterparts in Ecuador remain ready to cooperate. Deputy Mayor of Ipiales Dario Pantoja noted that at the height of the diplomatic crisis last March, communities in Ipiales on the Colombian side and Tulcan on the Ecuadorian side of the border joined in a march for peace "to show that the crisis was not between the peoples of the two countries; we need each other." President Uribe was well received in Narino on January 25 when he announced the creation of a "Unified Southern Command," which would bring 27,000 additional troops to the border region. In a nod to the department's economic woes, Uribe also announced his intention to create free trade zones in Pasto, Ipiales and Tumaco, which would serve to attract investment through lower tax rates.

17. (SBU) Ecuador's safeguard measures come at a worrying time for Colombian exporters, who are already dealing with a downturn in the U.S. and decreased demand from oil-rich Venezuela. The measures will hit particularly hard the border department of Narino, which has already been battered worse than any other region by the pyramid scandal. While not aimed specifically at Colombia, the measures add a layer of tension to already tense bilateral relations. Most Colombian analysts view the measures as legal under the CAN and WTO, leaving the diplomatic approach as Colombia's only recourse if it is to avoid a sharp decrease in exports to its third largest trading partner.

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